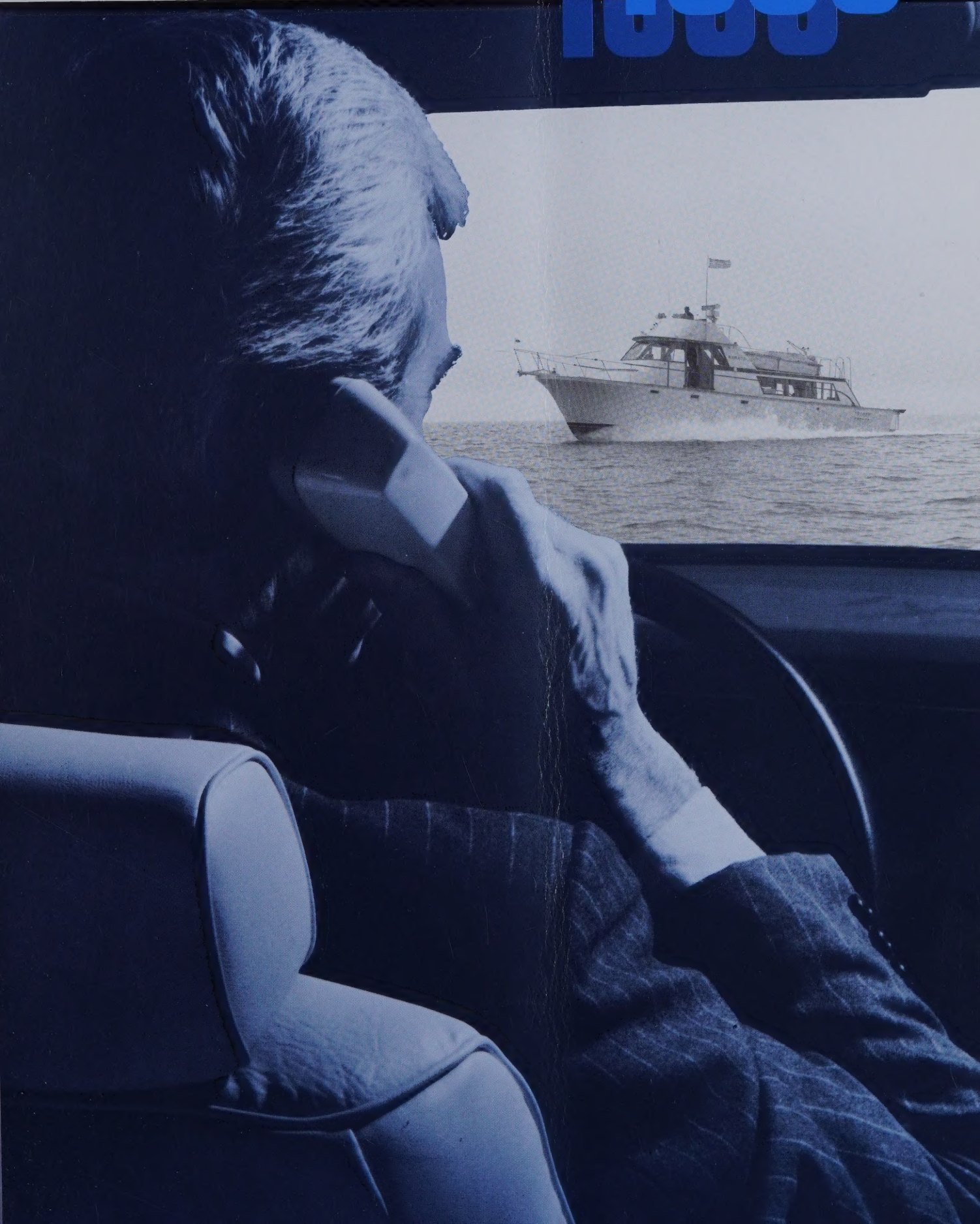


AR40

Glenayre Electronics Annual Report

111985
100000



1985

Financial Highlights and Five Year Review

for the years ended September 30

(thousands of dollars, except per share data, ratios and statistical data)

Operations Data	1985	1984	1983	1982	1981
Sales	\$21,379	\$18,433	\$15,507	\$12,685	\$12,053
Gross Profit	7,241	8,342	6,906	5,667	4,334
Research and Development	3,422	2,993	2,558	2,123	1,336
Net Earnings before Income Taxes & Extraordinary Item	993	2,440	2,644	2,047	1,593
Net Earnings	1,901	2,137	1,830	1,373	1,222
Dividends Paid	74	39	23	47	45
Capital Expenditures (including goodwill)	2,582	4,470	3,347	721	302
Financial Data					
Working Capital	\$12,893	\$12,620	\$11,247	\$ 4,298	\$ 3,267
Fixed Assets – Net	7,080	6,667	2,749	1,008	611
Long-term Debt	43	173	237	338	450
Shareholders' Equity	21,471	19,486	14,718	4,830	3,426
Ratio and Percentages					
Gross Profit as % of Sales	33.9%	45.3%	44.5%	44.7%	36.0%
Net Operating Earnings as % of Sales	3.9%	10.9%	11.8%	10.8%	10.1%
R & D as % of Manufactured Product Sales	21.2%	17.6%	16.5%	16.7%	11.1%
Current Ratio	3.5:1	2.7:1	4.0:1	2.3:1	2.4:1
Per Common Share Data					
Earnings per Share (basic)	\$0.51	\$0.59	\$0.64	\$0.60	\$0.60
Book Value per Share	5.77	5.27	4.31	2.06	1.50
Market Price Range – High	8¹/₈	12 ⁵ / ₈	14 ¹ / ₂	–	–
– Low	4.95	6 ³ / ₄	9 ¹ / ₂	–	–
Statistical Data					
Number of Common Shares Outstanding (average)	3,703,779	3,601,402	2,856,030	2,286,575	2,033,225
Number of Common Shareholders	700	742	898	164	N/A
Number of Employees	214	191	175	164	161

Annual General Meeting

The Annual General Meeting of the Shareholders will be held on Friday, February 14, 1986 at 3:30 pm in the Garibaldi Room of the Four Seasons Hotel, 791 West Georgia Street, Vancouver.

Front Cover Photo

Across the globe over 40,000 Glenayre mobile telephones are keeping people in touch.

GLENAYRE ELECTRONICS LTD.

ANNUAL MEETING OF SHAREHOLDERS
FEBRUARY 1, 1985

INFORMATION CIRCULAR
AS AT JANUARY 2, 1985

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Glenayre Electronics Ltd. (the "Company"), of proxies to be used at the Annual Meeting of Shareholder of the Company to be held at the time and place and for the purpose set forth in the accompanying Notice of Meeting. The cost of solicitation by management will be borne by the Company.

APPOINTMENT AND REVOCATION OF PROXIES

The persons designated in the enclosed form of proxy are Directors of the Company. A Shareholder has the right to appoint some other person to represent him at the meeting. A shareholder wishing to exercise this right may strike out the names now designated and insert the name of the desired person in the blank space provided. The desired person need not be a Shareholder of the Company. A shareholder who has given a proxy may revoke it by an instrument in writing executed by the Shareholder, or by his attorney authorized in writing or where the member is a corporation, by a duly authorized officer or attorney of the corporation, delivered to the Canada Trust Company, 1055 Dunsmuir Street, Vancouver, B.C. V7X 1P3, at any time up to the last business day preceding the date of the meeting for which the proxy is given or to the Chairman of the meeting on the day of the meeting before any vote in respect of which the proxy is to be used shall have been taken.

VOTING BY PROXIES

All shares represented by proxy will be voted on every motion on which a poll is taken at the annual meeting. The persons named in the enclosed form of proxy will vote the shares in respect of which they are appointed in

accordance with the direction of the Shareholders appointing them. IN THE ABSENCE OF SUCH DIRECTION, SUCH SHARES WILL BE VOTED IN FAVOUR OF EACH OF THE ITEMS SET FORTH IN THE ACCOMPANYING PROXY, BUT WHERE FOR ANY REASON THE INSTRUCTIONS IN THE PROXY WITH RESPECT TO ELECTION OF DIRECTORS IS UNCERTAIN, THE SHARES SHALL NOT BE VOTED FOR ANY DIRECTOR.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and any other matters which may properly come before the meeting.

At the time of printing this circular, the management of the Company is not aware of any such amendment, variation or other matters which are to come before the meeting.

VALIDITY AND DEPOSIT OF PROXIES

The form of proxy will not be valid unless completed and deposited in accordance with the instructions set out in the form of proxy.

VOTING SHARES AND THE PRINCIPAL HOLDERS THEREOF

The Company has outstanding 3,810,976 common shares entitled to be voted at the meeting, each share carrying the right to one vote.

The holders of the common shares (who are entered on the Company records), at the close of business on December 28, 1984, will be entitled to vote (in person or by proxy) on all matters placed before the meeting.

To the knowledge of the Directors and senior officers of the Company, no person or Company beneficially owns directly or indirectly equity shares carrying more than 10% of the voting rights attached to all equity shares of the Company, except:

<u>Name</u>	<u>Number of Common Shares</u>	<u>Percentage of Voting Shares</u>
Gilbey Equipment Ltd.	395,130	10.368%
CDS & Co.	1,040,217	27.295%

ELECTION OF DIRECTORS

The following table and notes thereto state the names of all persons proposed to be nominated for election as Directors, all other positions and offices with the Company now held by them, their principal occupations or employments, the year in which they become Directors of the Company, and the approximate number of shares of the Company beneficially owned, indirectly or directly, by each of the members as of this date of this information circular.

The nominees, whose names are set forth below, are all ordinarily resident in Canada.

Persons named in the enclosed form of proxy intend to vote for the election of the nominees, whose names are set forth below unless a contrary choice is indicated on the form of proxy.

Each Director elected will hold office until the next Annual Meeting or until his successor is duly elected, unless his office is earlier vacated in accordance with the Articles of Association of the Company.

The Board of Directors is required to have an audit committee whose members are: D.G. Melvin, E.K. Deering, G.H. Hobbs, and Brian Brady.

<u>Name and Office</u>	<u>Principal Occupation</u>	<u>Year First Became a Director</u>	<u>Shares Beneficially Owned</u>
E.K. Deering Director and President	President and Chief Executive Officer, Glenayre Electronics Ltd.	June 1, 1969	395,130 *
J.W. Chisholm Director and Vice-President	Vice-President, Glenayre Electronics Ltd.	Dec. 10, 1964	304,025 **
H.W. Scott Director	Retired	July 13, 1969	201,075

D.G. Melvin Director and Secretary	Solicitor	Nov. 29, 1972	47,000
B. Brady Director	President of Brink Hamilton Enterprises Ltd. (Investment Management Company)	Dec. 20, 1979	1,000
G.H.D. Hobbs Director	Corporate Director and Private Investor	Aug. 11, 1982	27,500

- * Gilbey Equipment Ltd., a company in which E.K. Deering is a principal, is the owner of the above shares.
- ** Boarshead Development Ltd., a company in which J.W. Chisholm is a principal, is the owner of the above shares.

ADVANCE NOTICE OF MEETING

In accordance with the terms and provisions of Section 135 of the British Columbia Company Act, a notice of the meeting was published in the Vancouver Sun newspaper on November 27, 1984 and subsequently mailed to the Vancouver Stock Exchange and the Superintendent of Brokers for British Columbia.

(No other nominations for election as Directors were received by the Company in response to such advance notice inviting written nominations for Directors).

APPOINTMENT OF AUDITORS

Unless otherwise instructed, the persons named in the enclosed form of proxy will vote in favour of the re-appointing of MacGillivray & Company, Chartered Accountants, as auditors for the Company and to authorize the Board of Directors to fix their remuneration.

AMENDMENT TO ESCROW AGREEMENT

Subject to the approval of the Company's shareholders, the Superintendent of Brokers for British Columbia (the "Superintendent") has consented to a proposed amendment to an agreement (the "Escrow Agreement") dated as of the 19th day of April, 1983 and made among certain directors and management personnel of the Company, or companies associated with them, The Canada Trust Company as escrow agent, the Company itself and the Superintendent, pursuant to which certain common shares ("Common Shares") of the Company outstanding at the time of the Company's initial public offering were deposited in escrow with the escrow agent. The Common Shares so deposited are to be released on the basis of an earnings test which evaluates the Company's performance.

For the purpose of calculating earnings that permit a release from escrow, subparagraph 14(e) of the Escrow Agreement authorizes the inclusion in earnings of an amount equal to one-half of the Company's research and development expenses for the relevant period.

It is proposed to amend subparagraph 14(e) so that there will be included in this accretion to earnings not only a portion of research and development expense charged to earnings, but certain capital expenditures as well. The amended subparagraph will read as follows:

"(e) for the purpose of calculating Adjusted Net Earnings per Common Share, there shall be included in Net Earnings otherwise determined hereunder an amount equal to one-half of all research and development expenses and expenditures made by the Issuer, net of any grants or other forms of reimbursements thereon, in the period for which Net Earnings is to be determined."

The effect of the amendment will be to increase Adjusted Net Earnings for the purposes of the Escrow Agreement, which may in turn result in the release of Common Shares from escrow more quickly than would otherwise be the case under the terms of the existing Escrow Agreement. In the opinion of management, however, the amendment permits the calculation of the earnings levels that are to be achieved in order to allow releases from escrow on a basis consistent with that intended at the time of the initial public offering.

The Superintendent has also consented to a further proposed amendment to the Escrow Agreement whereby the

word "the", where appearing at the end of the first line of subparagraph 14(d), be replaced by the word "this". This amendment is clerical in nature and insubstantive in its effect, being an amendment to more certainly express the original and continuing intent and meaning of this subparagraph.

The Superintendent requires that such amendments be approved by the shareholders of the Company. Therefore, the Board of Directors of the Company request that the shareholders approve the following resolution:

BE IT RESOLVED THAT:

1. The Company be authorized to amend the agreement (the "Escrow Agreement") dated as of the 19th day of April, 1983 among each of the shareholders of Glenayre Electronics Ltd. named in Schedule A thereto, the Canada Trust Company, Glenayre Electronics Ltd. and the Superintendent of Brokers for British Columbia by amending subparagraph (d) of paragraph 14 of the Escrow Agreement such that the word "the" at the end of the first line of said subparagraph (d) be deleted and the word "this" be substituted therefor, and by amending subparagraph (e) of paragraph 14 of the Escrow Agreement so that it reads as follows:

(e) for the purpose of calculating Adjusted Net Earnings per Common Share, there shall be included in Net Earnings otherwise determined hereunder an amount equal to one-half of all research and development expenses and expenditures made by the Issuer, net of any grants or other forms of reimbursements thereon, in the period for which Net Earnings is to be determined.
2. The directors and/or proper officers of the Company are hereby authorized to sign and execute all instruments and documents and do all things necessary or desirable to effect the amendment to the Escrow Agreement set out herein.

DIRECTORS AND OFFICERS REMUNERATION

The remuneration paid or payable by the Company for the last completed fiscal year ending September 30, 1984, to directors and senior officers of the Company was as follows:

NATURE OF REMUNERATION

	<u>From Office Employ- ment and Employer Contributions (aggregate)</u>	<u>Cost of Pension Benefits (aggregate)</u>	<u>Other (aggregate)</u>
1. Directors (Total No.: 6) From Company and wholly owned subsidiary	\$12,825.00	NIL	NIL
2. Five Senior Officers From Company and wholly owned subsidiary	\$398,970.00	\$1,266.00	NIL

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the 1st day of October, 1983, the commencement of the Company's last completed financial year, no Director or senior officer, or proposed nominee for election as a Director of the Company, nor any person or company who to the knowledge of the Directors or senior officers of the Company beneficially owns, directly or indirectly, more than 10% of the voting shares of the Company, nor any affiliate of such persons or companies, had or has any material interest, direct or indirect, in any transaction or proposed transaction which has or will materially affect the Company or any of its subsidiaries.

OTHER BUSINESS

The management is not aware of any matters to be brought before the meeting other than those set forth in Items 1 to 5 inclusive in the Notice of Annual Meeting. If other matters are properly brought before the meeting, it is the

intention of the person named in the enclosed proxy to vote the proxy on such matters in accordance with his best judgment.

Vancouver, B.C.
January 2, 1985

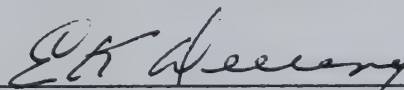
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of GLENAYRE ELECTRONICS LTD. (hereinafter called the "Company"), will be held at the Coach House Motor Inn, 700 Lillooet Avenue, North Vancouver, British Columbia, on Friday the 1st day of February, 1985, at the hour of 3:30 o'clock in the afternoon for the following purposes:

1. Receiving and considering the consolidated financial statements of the Company and its subsidiary for the year ended September 30, 1984, together with the report of the auditors thereon and the report of the Directors;
2. The appointment of auditors and to authorize thie Directors to fix the remuneration to be paid to the auditors;
3. The election of Directors;
4. To authorize and approve amendment to a certain Escrow Agreement dated April 19, 1983, between certain shareholders of the Company, The Canada Trust Company, Glenayre Electronic Ltd., and the Superintendent of Brokers for British Columbia, as set out on Attachment "A" hereto;
5. To transact such further and other business as may properly come before the meeting or any adjournment or adjournments thereof.

DATED at Vancouver, in the Province of British Columbia, this 3rd day of January, 1985.

BY ORDER OF THE BOARD OF DIRECTORS



E. K. DEERING, PRESIDENT

NOTE: If you are unable to attend the Annual Meeting in person, kindly read the instructions on the instrument of proxy enclosed herein and then complete and return the proxy within the time set out in the instructions. The enclosed proxy is solicited by management but you may amend it if you so desire by striking out the names listed therein and inserting in the space provided the name of the person you wish to represent you at the meeting.

BE IT RESOLVED THAT:

1. The Company be authorized to amend the agreement (the "Escrow Agreement") dated as of the 19th day of April, 1983 among each of the shareholders of Glenayre Electronics Ltd. named in Schedule A thereto, the Canada Trust Company, Glenayre Electronics Ltd. and the Superintendent of Brokers for British Columbia by amending subparagraph (d) of paragraph 14 of the Escrow Agreement such that the word "the" at the end of the first line of said subparagraph (d) be deleted and the word "this" be substituted therefor, and by amending subparagraph (e) of paragraph 14 of the Escrow Agreement so that it reads as follows:

(e) for the purpose of calculating Adjusted Net Earnings per Common Share, there shall be included in Net Earnings otherwise determined hereunder an amount equal to one-half of all research and development expenses and expenditures made by the Issuer, net of any grants or other forms of reimbursements thereon, in the period for which Net Earnings is to be determined."

2. The directors and/or proper officers of the Company are hereby authorized to sign and execute all instruments and documents and do all things necessary or desirable to effect the amendment to the Escrow Agreement set out herein.

Corporate Profile

The people at Glenayre are committed to supplying turnkey systems to providers of personal communications services, such as mobile and rural telephone, radio paging, and telephone answering.

Founded in 1963, Glenayre became a public corporation in 1983. With over

16% of sales committed to R & D, Glenayre has an enviable reputation for innovation and product reliability. Designed and manufactured products include IMTS radio telephone systems, mobile and rural radio telephones, the DIGITAIR end-of-train control monitor, and systems for radio paging and telephone answering.

Glenayre's head office in Vancouver, B.C. houses over 200 employees plus the corporate offices, marketing headquarters, engineering design laboratories, production, and test facilities. Sales representatives and agents are located in the U.S., Mexico, the Middle East, and Australia.

The Message Manager

is used to automate telephone answering and employee messaging in corporations (as shown at Glenayre) and telephone answering bureaus.



1985

Report to Shareholders

This has been a difficult year for your company. Gross sales of \$21,370,000 were up 16%, however this includes distributed cellular products of \$5,063,000, which did not contribute to our bottom line. Company manufactured sales were down 11%, from \$18,433,000 to \$16,363,000. These were the primary reasons for the gross margin deteriorating from 45.3% to 33.9%. While earnings are down only 15% from \$0.59 to \$0.51, the operating profits decreased 58%, from \$1,988,000 to \$835,000.

The good news is that we now have re-established our cost control procedures not only for R & D, but also manufacturing, marketing, and methods of granting credit. We have strengthened our company at the senior and secondary management levels and are ready for new challenges. Our balance sheet is strong.

During the year we acquired WR Communications Ltd. and its subsidiaries. Established in the manufacture of base stations, repeaters, and rural telephone systems, WR's products fit directly into our product line. Base stations are required for every radio telephone and radio paging terminal installation.

Although the WR communication products require technological upgrading, the existing product allows our company to offer "turnkey" communication systems, at this time. This has been a good acquisition which will be fully integrated into our operations by the first quarter of fiscal '86. Moving and integration costs are absorbed in this statement.

World wide market opportunities are opening for Glenayre; one of the most promising is the Peoples' Republic of China. We have delivered two trial systems to date, one of which is operating in Beijing. These installations led to signed orders exceeding \$4 million, which are now awaiting Chinese foreign exchange approvals. The Export Development Corporation has approved financing for one factory that requested financial assistance.

After the installation of these systems is complete, we expect that significant orders will follow. Joint venture discussions are under way with three factories, however these will take time to develop.

New product introductions include a lower capacity paging and voice message retrieval system, the GL3550. This has been extremely successful, with 22 systems sold by year-end.

In September we received British Telecom approval of our GL3000 paging terminal.

Our new TAS system, the Message Manager, is now being field tested in four Telephone Answering Bureaus, two in Canada and two in the U.S. These are exciting a great deal of interest, however finished product will not be available until May/June '86. Some major companies are looking at this product with reference to integrating it into their paging systems. Our long-term strategy is directed towards integrating all of the mobile, paging, and messaging services into one control switch.

Other products developed this year include the GL1110, which allows telex or personal computer communications between two points via UHF or VHF radio links. This modem works in conjunction with our IMTS radio telephone terminals and was the only telex system not out of service in Mexico City after the earthquake. We are now assessing the GL1110's full market potential; we know there is a great deal of interest in China and in Latin American countries.

In our last annual report we made reference to finding a system house to assist us with our railroad product development. Early in the year we concluded an agreement with Dynamic Sciences Limited (DSL), a subsidiary of Crowntek, for the purchase of our railroad product line. We retained the manufacture and control of DIGITAIR for four years, the manufacturing rights to the mining and train control systems for four years, as well as an ongoing royalty for approximately seven years. DSL is doing all further development work at their expense. Although

DIGITAIR orders were delayed due to U.S. regulatory problems, we received \$2.2 million in orders in an eight week period since our fiscal year-end, one of which was a \$1 million follow-on order from the Chessie railroad. Indications are that this is a good agreement for both DSL and Glenayre.

Our joint venture in Mexico, which has been dormant since the oil prices collapsed three years ago, is now beginning to pick up momentum. In the past five months we have received orders and letters of credit for over \$1 million, however this is merely the beginning of a plan to get the joint venture fully operational. Since the fiscal year-end, the Export Development Corporation has approved a \$13,000,000 financial package. Full Mexican government approvals are anticipated before this report is circulated. We have had a number of technical people in Mexico in the past six months and presently have a Canadian production manager stationed at the Mexican factory.

Company funded R & D costs increased \$429,000 (14.3%), to \$3,422,000, and increased from 16.2% to 21% of company manufactured sales. The reason for this heavy R & D effort was primarily to complete software on the paging and TAS products. All of these extraordinary costs have been written off.

Starting this year we will reduce our R & D expenditure as a percentage of sales by increasing sales volumes and federal assistance. It now appears certain that federal aid will be extended to our R & D efforts. We do not plan to decrease our R & D group, but unless

some new funding is made available we will limit its expansion to 10%.

All in all it was a year we quit without regret. Many difficult decisions were made and many administrative controls had to be re-instated. The most difficult problems have been recognized and are now under control.

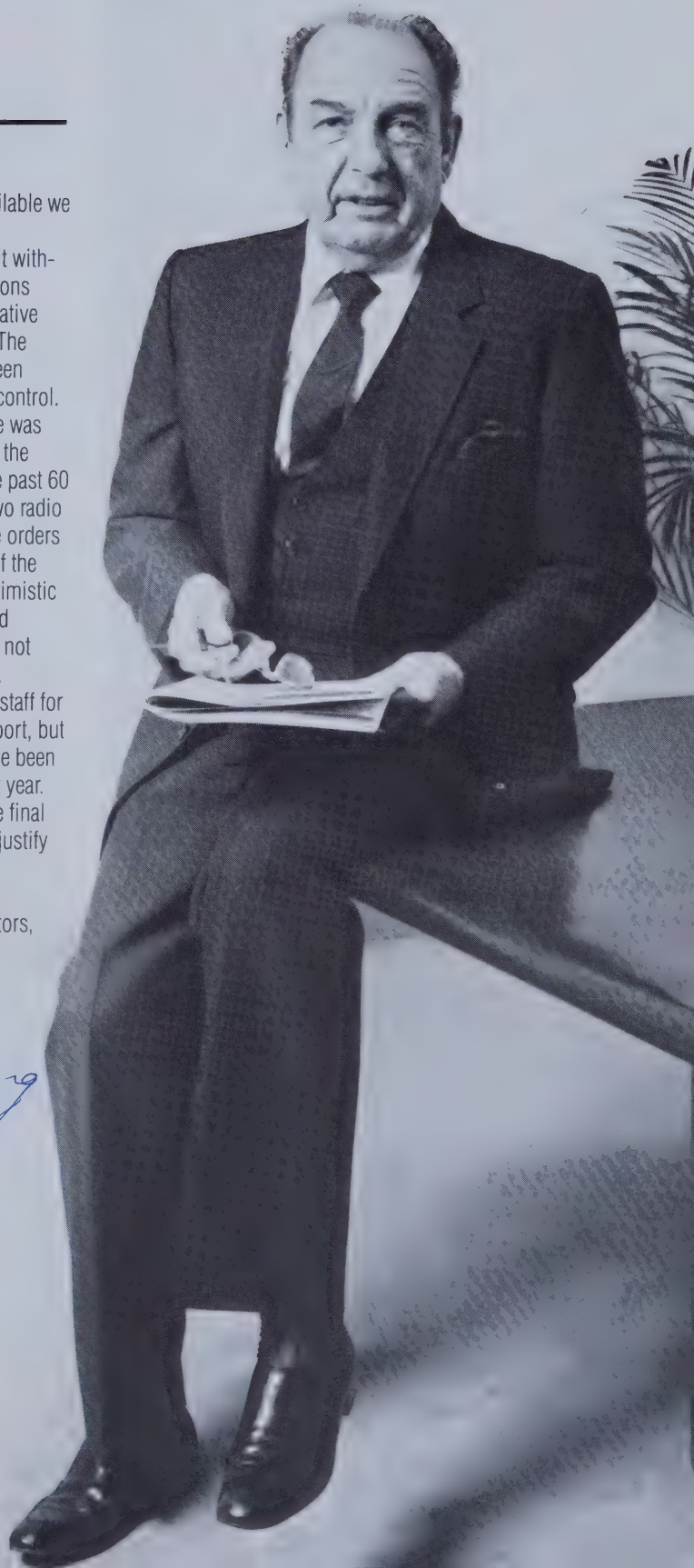
At the year-end our order file was approximately \$6 million. With the increase in U.S. orders over the past 60 days, our recent deliveries of two radio telephone systems to Chile, the orders from the PRC, and the upturn of the market for DIGITAIR, we are optimistic and expect to regain our forward momentum in the third quarter, not only in sales but also in profits.

We must thank not only our staff for their efforts and dedicated support, but also our shareholders, who have been very patient during this difficult year. We trust our performance in the final three quarters of fiscal '86 will justify the faith you placed in us.

On behalf of the Board of Directors,



E.K. Deering
Chairman, President and
Chief Executive Officer
December 23, 1985



1985

Consolidated Balance Sheet

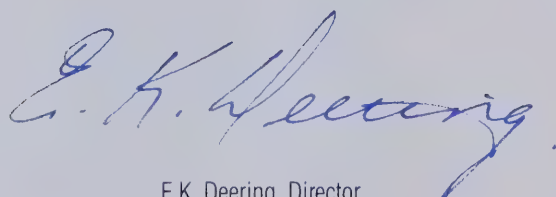
	As at September 30th 1985	As at September 30th 1984
Assets		
Current Assets		
Cash and short-term deposits	\$ 5,911,000	\$ 5,035,000
Accounts receivable	5,710,000	8,039,000
Inventories (Note 2)	6,389,000	6,247,000
Prepaid expenses	91,000	33,000
Income taxes recoverable	—	658,000
Total Current Assets	18,101,000	20,012,000
Fixed Assets (Note 3)	7,080,000	6,667,000
Goodwill and Other Assets (Note 4)	1,767,000	1,402,000
	\$26,948,000	\$28,081,000

Liabilities and Shareholders' Equity

Current Liabilities		
Accounts payable and accrued liabilities	\$ 4,076,000	\$ 7,183,000
Income taxes payable	117,000	—
Current portion of long-term debt (Note 5)	1,015,000	65,000
Deferred income taxes	—	144,000
Total Current Liabilities	5,208,000	7,392,000
Agreement Payable (Note 4a)	226,000	—
Long-term Debt (Note 5)	43,000	108,000
Deferred Income Taxes	—	1,095,000
Total Liabilities	5,477,000	8,595,000
Shareholders' Equity		
Share capital (Note 6)	11,618,000	11,460,000
Contributed surplus	163,000	163,000
Retained earnings	9,690,000	7,863,000
Total Shareholders' Equity	21,471,000	19,486,000
	\$26,948,000	\$28,081,000

Contingency (Note 12)

On behalf of the Board of Directors



E.K. Deering, Director



H.W. Scott, Director

Consolidated Statement of Earnings

	Year ended September 30th 1985	Year ended September 30th 1984
Sales	\$21,379,000	\$18,433,000
Expenses		
Cost of goods sold	14,138,000	10,091,000
Research and development (Note 7)	3,422,000	2,993,000
Administrative and selling expenses	2,512,000	3,111,000
Depreciation and amortization	837,000	565,000
Interest income	(523,000)	(767,000)
Total Expenses	20,386,000	15,993,000
Earnings Before Income Taxes & Extraordinary Item	993,000	2,440,000
Income Taxes (Note 8)		
Current	132,000	(350,000)
Deferred	26,000	802,000
Total Income Taxes	158,000	452,000
Earnings Before Extraordinary Item	835,000	1,988,000
Extraordinary Item (Note 11)	1,066,000	149,000
Net Earnings	\$ 1,901,000	\$ 2,137,000
Earnings Per Share		
Before extraordinary item	\$ 0.23	\$ 0.55
After extraordinary item	\$ 0.51	\$ 0.59
Weighted Average Number of Shares Outstanding During the Year	3,703,779	3,601,402

Consolidated Statement of Retained Earnings

	Year ended September 30th 1985	Year ended September 30th 1984
Retained Earnings – Beginning of Year	\$ 7,863,000	\$ 5,765,000
Net earnings	1,901,000	2,137,000
Dividends	(74,000)	(39,000)
Retained Earnings – End of Year	\$ 9,690,000	\$ 7,863,000

1985

Consolidated Statement of Changes in Financial Position

	Year ended September 30th 1985	Year ended September 30th 1984
Working Capital Derived From		
Operations		
Net income before extraordinary item after adjustment for items not involving working capital	\$ 1,713,000	\$ 3,177,000
Extraordinary item (Note 11)	1,066,000	149,000
Proceeds from disposal of assets	32,000	314,000
Issue of shares	158,000	2,670,000
	2,969,000	6,250,000
Working Capital Applied To		
Purchase of fixed assets	775,000	4,417,000
Acquisition of WR Communications Ltd. (Note 4a)		
Goodwill	278,000	—
Net long-term assets	1,437,000	—
Decrease in long-term debt	104,000	64,000
Dividends paid	74,000	39,000
Licence acquisition	—	300,000
Other assets	28,000	57,000
	2,696,000	4,877,000
Increase in Working Capital	273,000	1,373,000
Working Capital – Beginning of Year	12,620,000	11,247,000
Working Capital – End of Year	\$12,893,000	\$12,620,000
Represented By		
Current assets	\$18,101,000	\$20,012,000
Current liabilities	5,208,000	7,392,000
	\$12,893,000	\$12,620,000

Auditors' Report

To the shareholders of
Glenayre Electronics Ltd.

We have examined the consolidated balance sheet of Glenayre Electronics Ltd. as at September 30, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other

procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Spencer Mac Gillivray

Chartered Accountants
Vancouver, Canada
December 17, 1985

Notes to the Consolidated Financial Statements

1. Summary of Accounting Policies

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and conform in all material respects with International Accounting Standards, except that these financial statements do not reflect the impact of general price level changes. The more significant policies are outlined below.

(a) Consolidation:

The consolidated financial statements include the accounts of Glenayre Electronics Ltd. and its wholly-owned subsidiaries Glenayre Electronics Inc. and the WR Communications Ltd. Group (WR Communications Ltd., WR Communications Inc., BVH Communications Ltd., and Western Radio Dispatch Ltd.), after elimination of inter-company accounts and transactions. (Note 4a)

During August and September 1985, these companies were reorganized. The surviving companies at September 30, 1985 are Glenayre Electronics Ltd. and Glenayre Electronics Inc.

(b) Foreign Currency Translation:

The accounts of Glenayre Electronics Inc. and WR Communications Inc. have been translated into Canadian dollars as follows: monetary assets and liabilities at the exchange rate in effect at the balance sheet date, non-monetary items at the exchange rate in effect when they were acquired, and revenue and expenses (other than depreciation and amortization) at average exchange rates during the year. The resulting gains or losses on translation are included in the results of operations.

(c) Revenue Recognition:

Revenue is recognized at the time goods are shipped or services are provided to customers.

(d) Inventories:

Raw materials are valued at the lower of the average cost of materials purchased and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value.

(e) Fixed Assets:

Fixed assets are stated at cost. Depreciation is based on the expected useful lives of the respective assets as follows:

	Method	Rate
Computer software	Declining Balance	50% and 100%
Computer hardware	"	30%
Machinery and furniture	"	20%
Building	Straight Line	4%

Tooling is amortized on a per unit basis calculated on the estimated future sales of the product line.

(f) Goodwill and Other Assets:

Goodwill resulting from corporate acquisitions and licence agreement are amortized on a straight line basis over 10 years. (Note 4)

(g) Income Taxes:

The company follows the tax allocation method in providing for income taxes. Under this method deferred income taxes arise because certain income and expense items, principally depreciation, amortization and government grants, are reported in the financial statements in years different from those in which they are reported for income tax purposes. Deferred income taxes are provided on these timing differences as they arise at current tax rates.

Notes to the Consolidated Financial Statements

2. Inventories

	1985	1984
Raw materials	\$2,854,000	\$2,901,000
Work in process	2,587,000	1,490,000
Finished goods	948,000	1,856,000
	\$6,389,000	\$6,247,000

3. Fixed Assets

Land	\$1,492,000	\$1,492,000
Building	3,743,000	3,612,000
Machinery, furniture and tooling	4,047,000	3,098,000
	9,282,000	8,202,000
Less accumulated depreciation	(2,202,000)	(1,535,000)
	\$7,080,000	\$6,667,000

4. Goodwill and Other Assets

Goodwill – WR Communications Ltd. (Note 4a)	\$ 278,000	\$ –
Goodwill – ECI Electronics Ltd. (Note 4b)	1,316,000	1,232,000
VMX Inc. licence agreement	300,000	300,000
Other	228,000	57,000
	2,122,000	1,589,000
Less accumulated amortization	(355,000)	(187,000)
	\$1,767,000	\$1,402,000

(a) Acquisition

On June 27, 1985, the company effectively acquired 100% of the outstanding shares of the WR Communications Ltd. Group. These companies were engaged primarily in the manufacture and distribution of radio transmission and receiving equipment.

The assets acquired and liabilities assumed on the purchase of the WR Communications Ltd. Group totalled \$4,119,000 and \$4,397,000 respectively. This excess of liabilities over assets totalling \$278,000 has been recorded as goodwill.

As a result of this purchase the company has acquired potential loss carry forwards totalling \$5,200,000 which are available to reduce future taxable income. As at September 30, 1985, the company has utilized \$2,750,000 of these loss carry forwards to eliminate its Deferred Income Taxes Payable totalling \$1,277,000. Under the terms of the purchase agreement, this has resulted in an Agreement Payable to the vendors of the WR Communications Ltd. Group totalling \$226,000, which will be payable as these tax savings are realized in future years.

(b) On July 25, 1983, the company acquired 100% of the outstanding shares of ECI Electronics Ltd. Under the terms of this agreement, 109,995 shares were held in escrow. During the current year, these escrow shares were cancelled, in consideration for which the company paid an additional \$84,000 by way of goods and services.

5. Long-term Debt

	1985	1984
Federal Business Development Bank		
This loan is non-interest bearing and has no fixed terms of repayment.	\$ 950,000	\$ –
This loan is scheduled to be assumed by the former shareholders of WR Communications Ltd. in December 1985, in consideration for which they will receive certain non-essential assets of the company of equal book value to the loan assumed.		
Other	108,000	173,000
	1,058,000	173,000
Less current portion	(1,015,000)	(65,000)
	\$ 43,000	\$108,000

6. Share Capital

(a) Authorized:
10,200,000 common shares without par value.

(b) Issued Shares:

	Issued Shares	Amount
Balance – September 30, 1983	3,419,181	\$ 8,790,000
Issued during the year:		
Cash	261,800	2,470,000
VMX licence agreement	20,000	200,000
Balance – September 30, 1984	3,700,981	\$ 11,460,000
Issued during the year:		
Cash	13,165	58,000
VMX licence agreement	10,000	100,000
Balance – September 30, 1985	3,724,146	\$11,618,000

(c) Shares reserved for issue:

	September 30 1985	September 30 1984
Employee stock plans	340,565	350,000
Other	5,470	19,200
Total	346,035	369,200

Options for 45,000 shares have been granted under Employee Stock Plans at prices ranging from \$7.32 to \$9.56 per share, exercisable until 1990.

Notes to the Consolidated Financial Statements

(d) Shares Held in Escrow:

	September 30 1985	September 30 1984
Subject to terms approved at the initial issue of shares to the public in April 1983	582,065	1,128,667
Under employee share purchase arrangements	47,077	139,498
Relating to ECI Electronics Ltd. (Note 4b)	—	109,995
Total	629,142	1,378,160

The remaining shares escrowed at the time of the initial public share offering will be released only with prior consent of the Superintendent of Brokers.

7. Research and Development

(a) Company Policy

All research and development expenses are charged against earnings in the year they are incurred.

(b) Summary

	1985	1984
Company funded expenses	\$3,733,000	\$3,197,000
Government funded expenses	647,000	369,000
Contract research	133,000	323,000
Total research and development	\$4,513,000	\$3,889,000

Company funded expenses above differs from that shown in the earnings statement due to the inclusion of depreciation expense in the above figures (1985 – \$311,000; 1984 – \$204,000).

8. Income Taxes

The company's income tax rate for the current fiscal year is 46.4% (1984 – 46.6%). The reported income tax expense does not reflect this rate, primarily because of claiming investment tax credits.

As at September 30, 1985, the company has investment tax credits of \$1,700,000 and loss carry forwards of \$5,200,000 available to reduce future income taxes. These will expire if not used as follows:

	Investment Tax Credits	Loss Carried Forward
September 30, 1986	\$ 160,000	\$ —
September 30, 1987	330,000	—
September 30, 1988	180,000	—
September 30, 1989	10,000	800,000
September 30, 1990	70,000	500,000
September 30, 1991	220,000	2,300,000
September 30, 1992	730,000	—
Post September 30, 1992	—	1,600,000
	\$1,700,000	\$5,200,000

The company has utilized \$2,750,000 of its loss carry forwards in order to eliminate its Deferred Taxes Payable (Note 4a).

9. Comparative Figures

Certain comparative figures have been restated to conform with the current year's financial statement presentation.

10. Segmented Information

The company's markets presently include Canada, United States, and other foreign countries including Mexico, the Peoples' Republic of China, Saudi Arabia, Chile, Australia, and Great Britain.

	Glenayre Electronics Ltd.	Glenayre Electronics Inc.	Eliminations	Total
1985 SALES				
<i>(thousands of dollars)</i>				
Sales – Canada	\$ 3,114	\$ –	\$ –	\$ 3,114
– United States	–	16,096	–	16,096
– Other	2,169	–	–	2,169
Transfer between segments	8,299	–	(8,299)	–
Total sales	\$13,582	\$16,096	\$ (8,299)	\$21,379
Net earnings	\$ 1,874	\$ 27	\$ –	\$ 1,901
Total assets	\$24,566	\$ 4,655	\$ (2,273)	\$26,948
1984 SALES				
<i>(thousands of dollars)</i>				
Sales – Canada	\$ 5,195	\$ –	\$ –	\$ 5,195
– United States	–	12,892	–	12,892
– Other	346	–	–	346
Transfer between segments	7,088	–	(7,088)	–
Total sales	\$12,629	\$12,892	\$ (7,088)	\$18,433
Net earnings	\$ 1,612	\$ 527	\$ (2)	\$ 2,137
Total assets	\$21,813	\$ 6,561	\$ (293)	\$28,081

Notes to the Consolidated Financial Statements

11. Extraordinary Item

	1985	1984
Gain on sale of DIGITAIR marketing and patent rights	\$1,213,000	\$ —
Gain on sale of Control & Instrumentation business	—	205,000
Less related income taxes	(147,000)	(56,000)
	\$1,066,000	\$149,000

12. Contingency

Two former employees of the Company have initiated proceedings for wrongful dismissal. The Company is contesting these claims and disposition cannot be ascertained at this time. Any amounts paid on the disposition of these claims will be charged to earnings in the year of settlement.

Corporate Information

Directors

B.H. Brady*
President of
Brink Hamilton Enterprises Ltd.
Vancouver, B.C.

J.W. Chisholm
Vice-President

E.K. Deering*
President & Chief Executive Officer

G.H.D. Hobbs*
Private Investor
Vancouver, B.C.

D.G. Melvin
McTaggart, Ellis & Co.
Vancouver, B.C.

H.W. Scott
Private Investor and Former
Plant Manager

*Member of Audit Committee

Officers

E.K. Deering
President

P.M. Bradley
*Exec. Vice-President &
General Manager*

J.W. Chisholm
Vice-President

J.F. McDermott
*Exec. Vice-President
Sales & Marketing*

J.F. Francis
Vice-President Manufacturing

P.W. Lancaster
Vice-President Engineering

D.G. Melvin
Secretary

Canadian Head Office

1570 Kootenay Street
Vancouver, B.C.
V5K 5B8
(604) 293-1611
Telex: 04-354 808

U.S. Head Office

Suite 42D
1158 Industry Drive
Seattle, Washington 98188
(206) 676-1980

Representation

Marietta, Georgia
Rochester, New York
Eugene, Oregon
Pinehurst, Texas

Auditors

Spicer MacGillivray
Vancouver, B.C.

Transfer Agent and Registrar

The Canada Trust Company
Vancouver, B.C.

Bank

The Royal Bank of Canada

Exchange Listing

Toronto Stock Exchange "GLN T"

Glenayre